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MONTEREY, CALIFORNIA

THESIS

MILITARY AUTHORITARIAN REGIMES AND ECONOMIC DEVELOPMENT: THE ROK'S ECONOMIC TAKE-OFF UNDER PARK CHUNG HEE

by

Kisung Park

December 2008

Thesis Advisor:	Robert Looney
Second Reader:	Alice Miller

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After WWII a lot of countries were born, many of which came to have authoritarian regimes. The authoritarian regimes depressed civil liberties among their peoples, but in some cases they contributed to their own democratization, ironically, by pursuing economic development. ROK President Park Chung Hee seized control of political power by coup in 1961. Until he was assassinated in 1979, he acted both as dictator of South Korea's political order and as the founder of South Korean economic take-off.

This thesis first looks into how Park's administration accomplished economic development unlike the preceding Rhee Syngman regime. This paper finds the intrinsic difference from the military bureaucracy and export-oriented industrialization. Also, as an extrinsic difference, special demands from the Vietnam War are discussed. The United States fully participated in the Vietnam War during the period of Park's regime. The economic effect gained from South Korea's participation in the Vietnam War absolutely influenced on the export-oriented economic growth policy implemented by the Park's administration.

Then, this thesis assesses differences of both countries by comparing Park's regime to Pinochet's regime in Chile. Both regimes were military governments, but South Korea implemented economic development with powerful intervention, and Chile fulfilled economic reform with free markets. I examine what brought these two countries to take different ways of national economic policy.

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MILITARY AUTHORITARIAN REGIMES AND ECONOMIC DEVELOPMENT: THE ROK'S ECONOMIC TAKE-OFF UNDER PARK CHUNG HEE

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Submitted in partial fulfillment of the
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ABSTRACT

After WWII, several new countries were born, many of which came to have authoritarian regimes. The authoritarian regimes depressed civil liberties among their peoples, but in some cases, they contributed to their own democratization, ironically, by pursuing economic development. ROK President Park Chung Hee seized control of political power by coup in 1961. Until he was assassinated in 1979, he acted both as dictator of South Korea's political order and as the founder of South Korean economic take-off.

This thesis first looks into how Park's administration accomplished economic development, unlike the preceding Rhee Syngman regime. This paper finds the intrinsic difference from the military bureaucracy and export-oriented industrialization. Also, as an extrinsic difference, special demands from the Vietnam War are discussed. The United States fully participated in the Vietnam War during the period of Park's regime. The economic effect gained from South Korea's participation in the Vietnam War absolutely influenced on the export-oriented economic growth policy implemented by the Park's administration.

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I. INTRODUCTION

A. PURPOSE

President Park Chung Hee was the initiator of economic development in South Korea after seizing political power in a coup in 1961. Although his military regime suppressed civil liberty, it contributed to the rapid economic transformation of South Korea. This thesis examines the Park leadership's promotion of the take-off of South Korea's economy as a comparative case study of the role played by military authoritarian regimes in economic development.

B. CONCEPTUAL SIGNIFICANCE

After WWII, many countries were created, several of which came to have authoritarian regimes. These regimes depressed civil liberties among their peoples, but in some cases they contributed to their own democratization, ironically, by pursuing economic development.

The Republic of Korea's President Park Chung Hee seized control of political power by a coup in 1961. Until he was assassinated in 1979, he acted both as dictator of South Korea's political order and as the founder of the South Korean economic take-off. According to recent surveys, Park remains the most respected former president among South Korea's people, but there are also those who denigrate his achievements in promoting ROK's economic development because of his dictatorship.

Generally speaking, authoritarian regimes were widespread among countries of low economic development and per capita income. South Korea was the one of the poorest countries in the world at the beginning of the 1960s. Nevertheless, by 2007, its rank by GNP was thirteenth in the world. This and other considerations invite consideration of the main factors of the economic success under Park's authoritarian regime. If the main factors of these successful results can be located, it may help to illuminate understanding of how developing countries achieve economic development.

C. LITERATURE REVIEW

1. Approaches to Authoritarianism

The role of authoritarian regimes in promoting development has not been studied as extensively as that of development under democratic regimes. As Dan Slater observed, "Democratic institutions have long enjoyed pride of place in comparative politics. By comparison, authoritarian institutions remain inadequately conceptualized, theorized, and investigated."[1] Studying economic development under authoritarian regimes is not only useful in itself but also because it sheds light on contrasts with modernization in democratic orders.

Many developing countries began modernization in the 1950s and 1960s under authoritarian regimes. What connection exists between modernization and authoritarian regimes? Talcott Parsons was the foremost advocate of social evolutionism. According to his theory, society evolves from barbarism to civilized levels.[2] He argued that the United States was the most developed of the Western cultures. In his theories, modernization requires that a society deny its traditions, which results in social problems. His theory was attacked as being ethnocentric and for equating modernization with Westernization.

In Max Weber's view, modernization means transformation from feudal society to modern society.[3] This is an economic history viewpoint which sees modernization as Eurocentric westernization. Weber divided political domination into three types: charismatic domination, traditional domination, and legal domination.[4] He insisted that the relationship between rulers and subjects can be analyzed by these types of domination

---

[1] Dan Slater, "Iron Cage in an Iron Fist: Authoritarian Institutions and the Personalization of Power in Malaysia," *Comparative Politics* 36, no. 1 (Oct. 2003), 81-101.

[2] Talcott Parsons, *Theories of Society; Foundations of Modern Sociological Theory* (New York: Free Press of Glencoe, 1961).

[3] Max Weber and Talcott Parsons, *The Theory of Social and Economic Organization* (New York: Free Press, 1964).

[4] Peter Wagner, *A Sociology of Modernity: Liberty and Discipline* (London; New York: Routledge, 1994).

and that they constitute a progression in a historical process from charismatic domination to traditional domination and finally to legal domination. In charismatic domination, the ruler governs the people by extraordinary qualities and exceptional powers. In the traditional domination, leaders possess acquired or inherited qualities, and, in legal domination, they rule by rational regulations. Most military regimes during 1950s-1960s acquired political power using force and only then established their legitimacy.

W. W. Rostow developed a major economic growth model. He divided economic growth into five stages.[5] The first stage is that of a traditional society whose structure is developed within limits. The second stage is society in the process of transition. The third stage marks a watershed in the life of modern societies. During this time, new industries expand rapidly. The fourth stage sees a long interval in the drive to maturity. Finally, societies achieve maturity and come into an age of high mass-consumption. Following this scheme, authoritarian regimes contribute to the second and third stages.

According to the social theorist Peter Wagner, modernization is a process.[6] In his view, structural change progresses in all fields such as politics, economy, society, and culture. Structural change begins from undeveloped conditions to more developed conditions. Authoritarian regimes were mostly born in underdeveloped conditions and provided more developed conditions through economic development.

2. Perspectives on Developmental States and Authoritarian Regimes

Seymour Martin Lipset measured modernization of European and Latin-American countries during the 1960s by means of several indicators: industrialization, urbanization, education, and wealth.[7] He observed that more industrialized countries were found in more democratic countries in Europe and less dictatorial countries in Latin America. These data indicate that there are more possibilities to find authoritarian regimes in

[5] W. W. Rostow, *The Stages of Economic Growth, a Non-Communist Manifesto* (Cambridge [Eng.: University Press, 1960).

[6] Wagner, *A Sociology of Modernity: Liberty and Discipline*.

[7] Seymour Martin Lipset, *Political Man* (London: Heinemann, 1969).

developing countries than in developed countries. On that basis, he argued that "the more well-to-do a nation, the greater the chances that it will sustain democracy."[8]

Samuel Huntington supported Lipset in his book *The Third Wave*, noting that "an overall correlation exists between the level of economic development and democracy, yet no level or pattern of economic development is in itself either necessary or sufficient to bring about democratization." [9] He also stressed the stability of regimes, whether democratic or not, and argued that rapid economic development caused instability in the authoritarian regimes and compelled the country to liberalize. He stressed that "the primary problem is not liberty but the creation of a legitimate public order." [10] Authoritarian regimes might seek their legitimacy from the achievements of economic development.

Adam Przeworski also argued that economic development is related to a regime's political type, as shown in Figure 1.[11] However, he did not agree with Huntington's argument that rapid growth is not destabilizing in democracies (or in dictatorships). He summarized 18 studies about regime type and economic growth, as in Table 1. He explained that "among them, eight found in favor of democracy, eight in favor of authoritarianism, and five discovered no difference. What is even more puzzling is that among the 11 results published before 1988, eight found that authoritarian regimes grew faster, while none of the nine results published after 1987 supported this finding." [12]

---

[8] Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *The American Political Science Review* 53, no. 1 (Mar. 1959), 69-105.

[9] Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).

[10] Samuel P. Huntington and Harvard University. Center for International Affairs, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968).

[11] Adam Przeworski and Fernando Papaterra Limongi Neto, "Modernization: Theories and Facts," *World Politics* 49, no. 2 (Jan. 1997).

[12] Adam Przeworski, "What Makes Democracies Endure?" *Journal of Democracy*. 71, no. 1996 (1996), 39-55.

Figure 1. Probability that a regime is democratic, by per capita income.

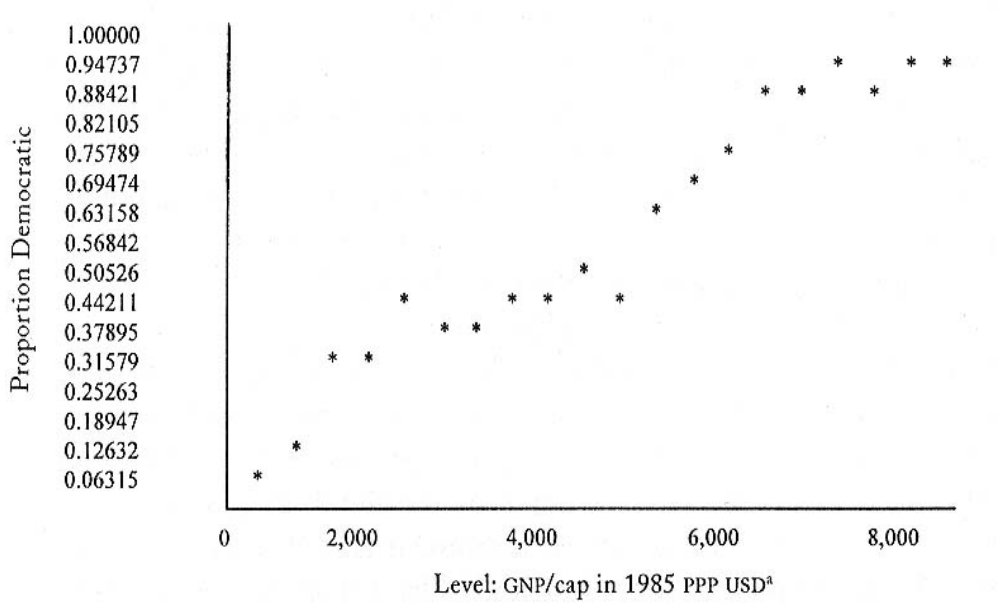

Table 1. Studies of Democracy, Autocracy, Bureaucracy and Growth.

Author	Sample	Time frame	Finding
Przeworski (1966)	57 countries	1949-1963	Dictatorships at medium development
Adelman (1967)	74 underdeveloped	1950-1964	Authoritarianism helped less and medium developed
Dick (1974)	59 underdeveloped	1959-1968	Democracies develop slightly faster
Huntington (1975)	35 poor nations	The 1950s	Authoritarian grew faster
Marsh (1979)	98 countries	1955-1970	Authoritarian grew faster
Weede (1983)	124 countries	1960-1974	Authoritarian grew faster
Kormendi (1985)	47 countries	1950-1977	Democracies grew faster
Kohli (1986)	10 underdeveloped	1960-1982	No difference in 1960s; authoritarian slightly better in 1970s
Landau (1986)	65 countries	1960-1980	Authoritarian grew faster
Sloan (1987)	20 Latin American	1960-1979	Bureaucratic-authoritarian regimes do better than democracies
Marsh (1988)	47 countries	1965-1984	No difference between regimes
Pourgerami (1988)	92 countries	1965-1984	Democracies grew faster
Scully (1988,1992)	115 countries	1960-1980	Democracies grew faster
Barro (1989)	72 countries	1960-1985	Democracies grew faster
Grier (1989)	59 countries	1961-1980	Democracy better in Africa and Latin America
Remmer (1990)	11 Latin American	1982-1988	Democracy faster, but result statistically insignificant
Pourgerami (1991)	106 less developed	1986	Democracies grew faster
Helliwell (1992)	90 countries	1960-1985	Democracy has a negative, but statistical effect on growth

D. THE SOUTH KOREAN CASE

The military regime under Park Chung Hee launched an export-led growth policy from early in his presidency. Haggard, Kim and Moon explained that “the neoclassical position traces South Korea’s take-off to a set of policy reforms in 1964 and 1965.” They continued by noting that “policy was far from laissez-faire, but on the whole, the reforms moved Korea in a more market-oriented direction that sought to exploit Korea’s comparative advantage.” The five-year plan was critical to the economic policy of Park. With these plans, “the ‘statists,’ by contrast, detail the pervasive intervention of the

Korean government in the economy, even after the shift toward an outward-oriented strategy. Moreover, the neoclassical position argues that such intervention promoted rapid economic growth."[13]

Several studies supported by the World Bank found the relevant factors responsible for the rapid growth under President Park's presidency. R.R. Krishnan explained that "among the factors that have been identified are the commitments of the political leadership (for 18 years Park Chung Hee 1961-1979 and Chun Doo Hwan since 1980) to growth through an all out promotion of exports."[14] In addition, the *chaebol* (South Korean business groups) were important actors as exporters. Park encouraged *chaebols* to accumulate capital. Although this approach generated side effects such as wealth inequality, corruption between business groups and government, its role was critical in the export-led policy.

The military regime was a strong supporter of the policy. Muthiah Alagappa concludes that "in many cases, state coercion played a dominant role in most if not all these processes and resulted in military role expansion and a dramatic increase in the coercive, organizational, economic, and political power and influence of the military."[15]

Park established social overhead capital (SOC) to develop the economy under his power. For example, when he planned to construct the "Kyung-bu Highway," it was widely resisted for the financial reason that South Korea was at that time one of the poorest countries. Park nevertheless was himself convinced of the importance of SOC. POSCO, now one of the largest steel companies in the world, is a similar case. Park ordered General Park Tae-jun to build it. According to Jun Jinsok, "the military in South Korea has played an important role in the process of modernization through manpower

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[13] Stephan Haggard, Byung-kook Kim and Chung-in Moon, "The Transition to Export-Led Growth in South Korea: 1954-1966," *The Journal of Asian Studies* 50, no. 4 (Nov. 1991), 850-873.

[14] R. R. Krishnan, "South Korean Export Oriented Regime: Context and Characteristics," *Social Scientist* 13, no. 7/8 (Jul. - Aug. 1985), 90-111.

[15] Muthiah Alagappa, *Coercion and Governance: The Declining Political Role of the Military in Asia* (Stanford, Calif.: Stanford University Press, 2001).

training, dissemination of modern methods of organization and management, and active participation in the construction of physical infrastructure."[16]

Not all of the policies of the military regime under President Park were successful. "However," Kim Gwang-sik noted, "the military has made an enormous contribution to South Korea's modernization and socioeconomic development. From the late 1950s to the late 1970s, the military played an important role in resocializing and training."[17] Han Yong-won agrees, stating that "the military has also made a profound contribution to the country's physical infrastructure in the form of roads, highways, bridges, and cultivation of farmland and woods."[18]

Developed countries in the West were important models of modernization in developing countries. But developing countries' modernization had many problems. Developing countries had to solve not only the process of modernization but also problems resulted from adopting modernization. They also had to deal with democracy, which is difficult in the beginning phase of modernization. Authoritarian regimes typically use force to achieve internal consolidation. By doing so, political stability could be accomplished, providing the ground for economic development. Muthiah Alagappa explained: [19]

> Coercion plays a central role as well in the structure and process of political domination. Rulers in a number of Asian countries rely on coercion to maintain their position and secure compliance from their citizens and subjects. State coercion was a crucial pillar of the Syngman Rhee, Park Chung-hee, and Chun Doo-hwan governments in South Korea; Mao Zedong's rule in China; the Kuomintang-led governments in Taiwan until 1987; the Marcos dictatorship in the Philippines; and the military governments in Thailand, Pakistan, Bangladesh, and Indonesia.

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16 Muthiah Alagappa, *Coercion and Governance: The Declining Political Role of the Military in Asia* (Stanford, Calif.: Stanford University Press, 2001): 121.

17 Gwang-sik Kim, "Goon-Sahoi Gwangye 5onyeon: Hoigowa Jeonmang" (Seoul, Hangookgookbangyeongoowon, 1998).

18 Yong-won Han, "Gookgabaljeongwa Gooneui Yeokhal" (Seoul, Hangookgookbangyeongoowon, 1998).

19 Alagappa, *Coercion and Governance: The Declining Political Role of the Military in Asia*.

To develop a country's economy in a short time, authoritarian regimes can be efficient even though there may be side effects. An authoritarian government has to overcome the resistance of citizens who want to introduce a more intensive democracy or maintain the traditional values. If developing countries can reform their economic structures successfully, they can change their political structures with relatively little conflict between the demands of the citizens and the fulfillment of the government. This thesis will suggest favorable solutions for economic development under authoritarian regimes.

1. Chile as a Case Study

In the Chilean case, President Pinochet's military regime had an important role in developing the economy. While Park Chung-hee pursued economic development by powerful state intervention, Pinochet implemented economic reform by means of a free market. The rapid free market economic reform of Chile by Pinochet spread to other South American countries. In this thesis, the author assesses why Korea intended economic development through government intervention and Chile selected a free market although both countries were lead by military governments.

E. METHODOLOGY AND SOURCES

This thesis draws on the literature on modernization in authoritarian regimes. In researching the comparative case studies of South Korea and Chile, important main sources include South Korean and Chilean government documents, scholarly books, economic journals and periodicals published not only in English but also in Korean. Economic data or reports from the World Bank, International Monetary Fund, and the World Trade Organization have also been drawn upon.

F. THESIS SYNOPSIS

This thesis first looks into how Park's administration accomplished economic development, unlike Rhee Syngman's regime. This thesis focuses on the intrinsic differences between the military bureaucracy and export-oriented industrialization. Also,

as an extrinsic difference, special demands from the Vietnam War will be discussed. The United States participated fully in the Vietnam War during the period of Park's regime. The economic effect gained from South Korea participation in the Vietnam War absolutely influenced its export-oriented economic growth policy implemented by the Park administration.

Finally, this thesis analyses the political differences between both countries by comparing Park's regime to Pinochet's regime. Both regimes were military governments, but South Korea implemented economic development with powerful intervention by the government, and Chile fulfilled economic reform with a free market. The thesis assesses what brought these two countries to take different directions in their national economic policies.

II. ECONOMIC DEVELOPMENT UNDER PRESIDENT PARK AND LEE

A. INTRODUCTION

South Korea declared independence after World War II and has accomplished dramatic economic development through export-oriented growth policy since the 1960s. The economic development of South Korea has been called as an "East Asian Miracle," NICs (Newly Industrializing Country), a NIEs (Newly Industrializing Economy), or a HPAEs (High Performing Asian Economy).[20] Also, after the mid-1960s, particularly, in the 1970s, South Korea was called a BAIR (bureaucratic-authoritarian industrializing regime).[21]

The annual growth rate of HPAEs eight countries (Hong Kong, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, and Thailand) has been 5.5 percent for 30 years since 1965.[22] This is two times higher than OECD countries, which is a group of advanced countries, three times higher than Latin America and South Asia, and 25 times higher than African countries below the Sahara.[23]

In particular, South Korea's average growth rate of GNP in the 1960s was 10 percent. It was the most amazing speed among other HPAEs countries.[24] It was impossible to see this growth rate in the 1950s when South Korea was one of the poorest countries in the world, after liberation in 1945. In the 1950s, the first President of Korea, Rhee Syng-man, ran the country, and President Park's military regime governed Korea in

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[20] Mark T. Berger, *The Battle for Asia: From Decolonization to Globalization* (New York: RoutledgeCurzon, 2004): 3.

[21] Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences," *International Organization* 38, no. 1 (Winter 1984), 1-40: 28.

[22] Berger, *The Battle for Asia: From Decolonization to Globalization*: 230.

[23] Jong Suh Koo, "Developmental Model of East-Asia and Korea," *The Korean Political Science Association* 30, no. 2 (Aug. 1996), 209-224.

[24] Cumings, *The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences, 1-40*: 1.

the 1960s. How could President Park's administration achieve such high growth? This paper will compare Rhee's government and Park's military government in terms of economic development.

B. DIFFERENCES BETWEEN PARK'S ECONOMIC DEVELOPMENT AND LEE'S

After its independence in 1945, Korea was divided into North and South Korea and they have confronted each other. Although South Korea held an election separately and elected Rhee Syng-man as the first President, social unrest continued and communist guerrillas connected to North Korea frequently appeared.[25] Moreover, the Korean War in 1950 devastated the Korean peninsula. Rhee administration, which had to depend on U.S. aid, implemented import-substituting development, but political stability was a more urgent matter than economic development for the newly independent nation. Although there was economic growth, it was mainly because of the restoration of damages from the Korean War, and reconstruction of the basic infrastructure including power, basic industries.[26]

On the contrary, Park's military government, which came into power by a coup in 1961, drove export-oriented industrialization (EOI) and accomplished dramatic economic development compared to Rhee administration. Thanks to the cold war system in the world, a powerful military regime was able to remain, and the Vietnam War in the 1960s helped Korea to begin EOI. Furthermore, the military was the only powerful and systematic organization in Korea following the Korean War. With support of the military, Park's government could drive a powerful export-oriented policy. Particularly, the policy of the cultivation of heavy and chemical industries in 1970s upgraded Korea's EOI with conglomerates' full-fledged growth.

This chapter examines two factors that enabled Park's regime to accomplish economic growth than Rhee's administration.

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[25]Cumings, *The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences, 1-40*: 23.

[26] Edward Reynolds Wright and Suk-choon Cho, *Korean Politics in Transition* (Seattle: Published for the Royal Asiatic Society, Korea Branch, by the University of Washington Press, 1975): 244.

- ***Military bureaucracy***: Although technocrats of Rhee's government could not play a proper bureaucracy role due to the political situation, Park's government was able to form a powerful bureaucracy dominated by the government.

- ***Export-oriented industrialization***: Although Rhee's regime implemented an import-substitution program, it was insufficient to maintain consistent economic growth. The GDP growth rate of Rhee's government continuously decreased. On the contrary, Park's government accomplished high-speed economic growth through export-oriented industrialization. Since South Korea was a lack of natural resources, increasing export through industrialization was the best option for economic development.

C. THE MILITARY BUREAUCRACY

1. Political Side

Park Chung-hee had promised to hand over his government to a civilian government after the coup, but he ran for President as a representative of the Democratic Republican Party (DRP). The DRP had been organized by Kim Jong-pil, who was a core member of the coup. Park's military government greatly strengthened the power of President through constitutional reform. The President then could appoint cabinet members including the prime minister, and limit the freedom of the press, assembly and speech. In addition, he limited political activities of political parties through a political party law.[27]

President Park's peers in the military supported him. The leading powers in the Park regime were military leaders. Many of them had crossed the border into Manchuria in the colonial era and entered the Manchurian Military Academy. And, some of them who had achieved excellent grades entered the Japanese Military Academy. Park Chung Hee also graduated from the Manchurian and Japanese Military Academies. Park Chung Hee appointed his subordinates to important positions in the government. For example, General Jung Il-Kwon became Foreign Minister, the Prime Minister and the Speaker.

[27] Haggard, Kim and Moon, *The Transition to Export-Led Growth in South Korea: 1954-1966, 850-873*: 858.

General Lee Han-Lim, Park's military academy colleague, became the Minister of Construction. General Baek Sun-Yon became the Minister of Transportation. Cho explained,

> In terms of social and political backgrounds, the Korean government bureaucracy contains three layers of higher civil servants. … Those belonging to the third category are ex-military men who entered the higher civil service after the military coup d'etat of 1961. Some 14.08 percent of higher civil servants had been in the military immediately before joining the civil service. This percentage increases in the higher ranks; in 1965, 56.12 percent of the age group of 36 to 40 were ex-military men.[28]

And the then leaders were more likely to be in their 30s compared to the previous regime as seen in the table below.[29]

Table 2. Percent Distribution of SCNR members by Age Compared with Leadership during the Rhee and Chang Regimes.

	Over 80	70-79	60-69	50-59	40-49	30-39
Leadership, [a]Rhee regime (Age as of 1959)	1.4	4.7	29.1	38.5	24.3	2.0
Leadership, [a]Chang regime (Age as of 1960)	0	0	27.9	36.1	32.5	3.5
Members, SCNR, [b]June 61, Jan. 62, Dec. 62, or Dec. 63 (Age as of 1961)	0	0	0	0	22.5	77.5

a. Adapted from Hahn Bae-ho and Kim Kyu-taik, "Korean Political Leaders (1952-1962): Their Social Origins and Skills," *Asian Survey*, Vol. 3 (July 1963), p. 314. Composition of the leadership groups is described in the text of the present study and in the study cited.

b. Percentages computed with N: 40. Data on date of birth were unavailable for 8 SCNR members.

Kim said, "Aside from such quantitative advancement to positions of influence, there is a qualitative influx of former generals and colonels into key governmental offices-from the head of state down to the bureau chiefs in the more sensitive positions." Like this, South Korea could establish powerful military bureaucracy for the economic development under government guidance.[30] The following list of key officials and their

[28]Wright and Cho, *Korean Politics in Transition*: 73.

[29] Ibid., 185.

[30]Haggard, Kim and Moon, *The Transition to Export-Led Growth in South Korea: 1954-1966, 850-873*: 851.

former military ranks shows the extent of military entrenchment in the governmental process as of the winter of 1969. (See Table 3)[31]

Table 3. Key Officials in Park's Military Government

Department	Name	Rank*
The President of the Republic	Park Chung-hee	General, Army
Presidential Secretariat Senior Secretaries (Political Affairs)	Kim Sang-bok	Lt. General, Army
Civil Affairs	Yu Song-won	Brig. General, Army
Public Information	Kang Sang-uk	Brig. General, Army
Protocol	Cho Sang-ho	Colonel, Army
General Affairs	Kim Won-hui	Brig. General, Army
Central Intelligence Agency Director	Kim Kye-won	Lt. General, Army
The Prime Minister	Chung Il-gwon	General, Army
The Minister of Defense	Chung Nae-hyok	Lt. General, Army
The Minister of Home Affairs	Park Kyong-won	Lt. General, Army
The Minister of Construction	Yi Han-rim	Lt. General, Army
The Minister of Transportation	Paik Son-yop	General, Army
The Minister of Agriculture and Forestry	Cho Si-hyong	Maj. General, Army
The Chairman, Committee of Agriculture and Forestry, the National Assembly	Yi Chong-gun	Brig. General, Army
The Chairman, Committee on Commerce and Industry, the National Assembly	Kil Chong-sik	Colonel, Army
The Chairman, Committee of Foreign Affairs, the National Assembly	Cha Chi-chol	Army
The Chairman, Committee on Home Affairs, the National Assembly	Yi Sang-mu	Colonel, Army
The Chairman, Judiciary Committee, the National Assembly	No Chee-pil	Brig. General, Army
The Chairman, Committee on National Defense, the National Assembly	Min Pyong-hwon	Lt. General, Army
The Chairman, Committee on Steering and Planning, the National Assembly	Yi Pyong-whi	Colonel, Army

* All ranks are those held at the time of retirement from active duty.

31 Se-Jin Kim, *The Politics of Military Revolution in Korea* (Chapel Hill: University of North Carolina Press, 1971): 162-163.

His subordinates played a big role in the assembly as well as in the administration. The major members of the DRP were military people. As a result of his electoral victory, Park could strongly execute the government policy, placing his subordinates in the main policy departments of the government.

Table 4. Principal Occupations of Founding Members of DRP[32]

Occupation	Number	Occupation	Number
Military	20	Law	4
Education	13	Banking	2
Politics	8	Medicine	1
Press	7	Artist	1
Commerce	7	Total	70
Bureaucracy	7		

Having suffered through the Korean War (1950-53), the military appeared as the only organization with structural power in South Korea.[33] The number of soldiers was 75,000 in 1950, but increased to 600,000 after the war, and 700,000 in 1956. It became one of the largest militaries in the world.[34] Cumings gave two meanings in respect to this big military.[35] First, the Korean military took a role of defense at the front line of the Cold War. The confrontation status between North Korea supported by the Soviet Union and China, and South Korea supported by U.S. provided an advantageous international environment where a powerful military government had to remain. Even though the Korean War was suspended, the threat from North Korea still remained, and the political role of the Korean military remained the same.[36] Second, many young Koreans were

[32] David Chamberlin Cole and Princeton N. Lyman, *Korean Development; the Interplay of Politics and Economics* (Cambridge, Mass.: Harvard University Press, 1971): 35.

[33] Richard Stubbs, *Rethinking Asia's Economic Miracle: The Political Economy of War, Prosperity, and Crisis* (Houndmills, Basingstoke, Hampshire; New York: Palgrave Macmillan, 2005): 107.

[34] Cumings, *The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences, 1-40*: 23.

[35] Ibid., 26.

[36] Nora Hamilton and Eun Mee Kim, "Economic and Political Liberalisation in South Korea and Mexico," *Third World Quarterly* 14, no. 1 (1993), 109-136: 115.

educated by the military in technology and letters, and military officers had learned leadership in military. All young men in Korea had to provide mandatory service to the military, and the military taught them the technology and organizational culture necessary to work in the general society after discharge. This second factor minimized objections against Park's military regime about its lack of legitimacy.

2. Economic Side

Unlike Rhee's government, Park's military regime concentrated its power on the administration to prepare an organization basis for economic growth. These organizations were blocked from political stakeholders, and implemented powerful economic growth policies. The power of Park's military government and political insulation were important factors for accomplishing market-conforming strategy. A small cadre of technocrats tried economic reform during Rhee's government but failed since they were not the main power. However, Park's government formed a powerful bureaucracy through restructuring and also appointed various specialists to government departments.[37] The role of bureaucracy is also pointed to as a factor common to high-speed economic growth in East Asia.[38]

The economic policies of Park's government were mainly swayed by the Economic Planning Board (EPB) which had authority over economic and budget planning. Since the EPB had a powerful authority over the allocation of resources as well as economic development, their influence on the overall economy of South Korea was tremendous.[39] Furthermore, the Ministry of Commerce and Industry (MCI, later the Ministry of Trade and Industry, or MTI) and the Ministry of Finance (MOF) were established as financial supervisors to control companies financially. The government

[37] Haggard, Kim and Moon, *The Transition to Export-Led Growth in South Korea: 1954-1966, 850-873*: 851.

[38] Frank-Jurgen Richter, *The East Asian Development Model: Economic Growth, Institutional Failure, and the Aftermath of the Crisis* (New York: St. Martin's Press, 2000).

[39] Se-jin Chang, *Financial Crisis and Transformation of Korean Business Groups: The Rise and Fall of Chaebols* (Cambridge, UK; New York: Cambridge University Press, 2003).

conducted instruction and provided supervision companies, and if a company accomplished its goal, the government provided attractive incentives.[40]

D. EXPORT-ORIENTED INDUSTRIALIZATION

The Korean economy greatly depended on aid from the U.S. in the 1950s. From 1953-1960, U.S. aid accounted for 70 percent of total imports. The main purpose of the aid was stabilization, but the U.S. was skeptical about Korea's economic growth.[41] Rhee's government had put priorities on political issues to confront communist North Korea rather than an economic development.[42]

Rhee's regime implemented import-substituting programs as an economic policy. Major industries at that time were textiles, cement and flat glass.[43] The textile industry in particular, was an important axis of economic growth in the 1950s.[44] Cotton spinning had begun in the Japanese colonial era (1910-1945) and had been a major part of Korean industry even after export-oriented industrialization in the 1960's as well as import-substituting industrialization in the 1950s.[45] Domestic industries were protected by tariffs and foreign currency policies,[46] and it was relatively easy for domestic companies to approach the U.S. market due to the U.S. government's aid policy.[47]

However, the stabilization and import-substituting program did not guarantee consistent economic development. The GNP growth continuously dropped after peak of

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[40]Haggard, Kim and Moon, *The Transition to Export-Led Growth in South Korea: 1954-1966, 850-873*: 857.

[41]Haggard, Kim and Moon, *The Transition to Export-Led Growth in South Korea: 1954-1966, 850-873*: 852.

[42] Chang, *Financial Crisis and Transformation of Korean Business Groups: The Rise and Fall of Chaebols*.

[43]Cumings, *The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences, 1-40*: 25.

[44] Dennis L. McNamara, "State and Concentration in Korea's First Republic, 1948-60," *Modern Asian Studies* 26, no. 4 (Oct. 1992), 701-718: 716.

[45]Ibid., 701.

[46] Paul W. Kuznets, *Economic Growth and Structure in the Republic of Korea (New Haven: Yale University Press, 1977).*

[47]McNamara, *State and Concentration in Korea's First Republic, 1948-60, 701-718*: 716.

7.7 percent in 1957 (See Table 5). This policy only could not develop Korea's poor economic structure. Effective political structure had to support continuous economic growth. Unfortunately, Rhee's government had no ability to change its ineffective political structure.[48]

Table 5. GNP Growth between 1957 and 1960

	1953-55	1957	1958	1959	1960
GNP growth (%)	Korean War	7.7	5.2	3.9	1.9

Haggard explained Rhee's import-substituting economic strategy as follows:[49]

> In the 1950s, the financial weakness of the ruling Liberal Party and its declining political fortunes made it rational for Syngman Rhee to maximize his dependence on aid, limit the domain of coherent planning, and maintain discretionary control over a variety of policy instruments in order to build political support. These political factors help explain the particular nature of South Korea's experience with a predominantly import-substituting economic strategy in the 1950s.

McNamara argued: [50]

> But the wider picture of uneven growth and then stagnation in the local economy, blatant collusion with industry to gain funds for election campaigns, and inconsistent economic planning and implementation hardly suggests an effective role in the wider economy for the state of the First Republic. Intent on political survival, the administration failed to provide clear economic direction or even commit itself to a comprehensive development plan. … Rhee's overriding priority on political rather than economic mobilization, and growing reliance on the business sector for funds to maintain his Liberal Party.

[48]Haggard, Kim and Moon, *The Transition to Export-Led Growth in South Korea: 1954-1966, 850-873*: 853.

[49]Ibid., 850.

[50]McNamara, *State and Concentration in Korea's First Republic, 1948-60, 701-718*: 710.

Park's military regime effectively changed Rhee's import substituting industrialization (ISI) into export-oriented industrialization (EOI), and powerfully drove export-oriented policies. Park's policy re-established the relationship between the government and companies. Companies received incentives from the government and the government began to discipline companies.[51]

The export-oriented policy, the most successful economic factor of South Korea since the 1960's, was not planned by Park's regime at first. His first economic development plan was to inherit the previous regime's import substituting industrialization plan.[52] However, Park changed the development strategy to an export-oriented industrialization in 1964.[53] He pursued the transition from a "Domestic-oriented economic system" which basically pursued restoration from war damage and stabilization, to an "Export-oriented economic system." This was because Korea was not a large-scale domestic market and lacked natural resources. Since Korea had cheap and highly educated labor power, it was logical to manufacture products in the country with imported raw materials and export them to other countries. In this period, the geopolitical environment was also advantageous to South Korea. Due to the Cold War, the U.S. provided tremendous aid and a market for South Korea.[54]

Table 6. Weight of Import and Export for U.S. among Total Import and Export in 1960-80

(Unit: %)

Year	1960	1965	1970	1975	1980
Weight of export to U.S.	11.1	35.2	47.3	30.2	26.3
Weight of import from U.S.	38.9	39.3	29.5	25.9	21.9

*sources: the Korea Bank, ECOS DB

[51]Haggard, Kim and Moon, *The Transition to Export-Led Growth in South Korea: 1954-1966, 850-873*: 851.

[52] John Lie, Han Unbound: *The Political Economy of South Korea* (Stanford, Calif.: Stanford University Press, 1998).

[53] Hyug Baeg Im, "The Rise of Bureaucratic Authoritarianism in South Korea," *World Politics* 39, no. 2 (Jan. 1987), 231-257: 243.

[54]Chang, *Financial Crisis and Transformation of Korean Business Groups: The Rise and Fall of Chaebols*: 50.

Im explained that: [55]

> Due to the success of the export platform, the South Korean economy grew 9.6 percent per annum and created 2.9 million new jobs between 1963 and 1972. The economic structure changed radically. While agriculture's share of total domestic production dropped from 45.2 percent to 29.5 percent, the industrial manufacturing sector's share increased from 17.1 percent to 35.2 percent between 1960-1962 and 1970-1972. The export platform led the GNP growth. Between 1963 and 1973, the export sector provided 39.9 percent of the total GNP growth compared to 4.5 percent between 1955 and 1963.

South Korea entered into a take off stage in the mid-1960s through export-oriented industrialization.[56] After converting its industrialization policy for economic stabilization and import-substitution into an export-oriented strategy of labor-intensive light industries, it gradually expanded to heavy industries. In the early 1970's, the government decided to intensively cultivate the heavy and chemical industry sector. In order to do so, the government established "Promoting Committee for Heavy and Chemical Industry" (March 1973) with the Chairman of the Minister of Economic Planning Board. This committee took the lead in industrialization. Its policy also considered the necessity to defense industry through its development of heavy and chemical industry because of the threat of North Korea and the possibility of withdrawal of U.S. forces. Moreover, the heavy industry economic development plans of Japan after WWII greatly influenced Park Chung-hee.[57]

Thanks to the powerful cultivation policy of the government, the ratio of heavy and chemical industries to the production of manufacturing industries rapidly increased to 53.6 percent in 1980 from 39.2 percent in 1970, and the ratio out of total exporting increased to 41.5 percent from 12.8 percent. Since the economy of scale is essential to

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[55] Im, *The Rise of Bureaucratic Authoritarianism in South Korea, 231-257*: 244.

[56] W. W. Rostow and Massachusetts Institute of Technology. Center for International Studies., *The Stages of Economic Growth and the Problems of Peaceful Co-Existence* (Cambridge, Mass.: Center for International Studies, Massachusetts Institute of Technology, 1960). Rostow classified economic growth stages into traditional society, transitional society, take-off stage, mature stage and high mass consumption stage.

[57] Mark Clifford , *Troubled Tiger: Businessmen, Bureaucrats, and Generals in South Korea* (Armonk, N.Y.: M.E. Sharpe, 1998).

heavy and chemical industries, the cultivation of these industries became an opportunity for large companies' full-fledged growth. Given full support from the government, large companies advanced into petrochemical, steel, cement, shipbuilding and machinery industries, and finally Samsung Electronics, POSCO, Daewoo shipbuilding, Hyundai Heavy were developed.[58]

[58] Young-jae Chun, "60 Years of South Korea Economy," *CEO Information* 667 (Aug. 13, 2008): 9.

III. VIETNAM WAR AS AN ECONOMIC CATALYST

A. INTRODUCTION

After World War II, Korea fell under the control of the United States, but the U.S. did not have any clear policy for Korea. South Korea did not draw much attention from the United States until the Korean War broke out in 1950. The Korean War was a big event and announced the start of the Cold War in Asia. The Korea Peninsula was Asia's Berlin, torn into two. North Korea was supported by communist China and Soviet Russia and South Korea was supported by the U.S.[59] Kang said, "When the U.S. government pursued a containment policy vis-à-vis Communist countries, South Korea functioned as an advance defense element of the U.S. security system."[60]

The Untied States had aided South Korea since 1945 when Korea became independent. Yi said, "During the first two decades after South Korea's independence, the United States infused more than $6.6 billion in aid – $3.8 billion in economy and $2.8 billion in military." [61] However, South Korea had been one of the poorest nations in the world with less than $100 of the national per capita income until 1960. Robert Komer, a senior staffer at the National Security Council (NSC) and later Lyndon Johnson's senior adviser, pointed out, "the long and frustrating record of U.S. involvement in Korea [had] so little to show for it." [62]

The frustrated development of Korea improved in the 1960s. President Park, who put economic development as his first priority, accomplished successful economic development and Korea did not need aid from the U.S. any more. The major diplomatic issues between South Korea and the U.S. in the 1960s were normalization of Korea's

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[59] Kil J. Yi, "In Search of a Panacea: Japan-Korea Rapprochement and America's Far Eastern Problems," *The Pacific Historical Review* 71, no. 4 (Nov. 2002), 633-662: 633.

[60] Young C. Kim and Abraham M. Halpern, *The Future of the Korean Peninsula* (New York: Praeger, 1977): 168.

[61] Yi, *"In Search of a Panacea: Japan-Korea Rapprochement and America's Far Eastern Problems," 633-662*: 642.

[62] Ibid., 642.

relationship with Japan and dispatching troops to Vietnam.[63] These issues arose from the Cold War. This paper will review the foreign policies of the U.S. and South Korea during the Vietnam War and its impact on the South Korean economy.

B. THE NORMALIZATION BETWEEN SOUTH KOREAN AND JAPAN

Despite long-term aid, South Korea was still unstable politically and still poor and underdeveloped. The United States had expected Japan to do something for Korea. Han said, "friendship and cooperation between South Korea and Japan would lessen the U.S. defense burden in East Asia."[64] In 1962, President John F. Kennedy asked Japan to cooperate with economic aid for Korea[65] and the Johnson administration operated "every conceivable and effective means" for normalizing diplomatic relations between Korea and Japan.[66] In 1964, David Bell, head of the U.S. Agency for International Development (AID) mentioned Japan as "another economic aid source" to help Korea and tried to have the economic burden shared with Japan to fight against Communism. The United States thought that South Korea's economy would benefit from forming a relationship under which South Korea would provide cheap labor to Japan, and in turn, Japan would provide capital to South Korea. Thus, the U.S. saw the normalization of diplomatic relations between the two nations as the first thing to be completed.[67]

The Untied States had kept exercising its political influence on both nations to normalize their relations since the Korean War. In 1964, William P. Bundy, the Assistant Secretary of State for Far Eastern Affairs, emphasized the importance of the normalization of diplomatic relations between Korea and Japan as follows:[68]

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63 Youngnok Koo and Sung-ju Han, *The Foreign Policy of the Republic of Korea* (New York: Columbia U.P., 1985): 149.

64 Ibid., 150.

65 Kwan-bong Kim, *The Korea-Japan Treaty Crisis and the Instability of the Korean Political System* (New York: Praeger Publishers, 1971): 78.

66 Yi, *In Search of a Panacea: Japan-Korea Rapprochement and America's Far Eastern Problems," 633-662*: 636.

67 Ibid., 643.

68 Kim, *The Korea-Japan Treaty Crisis and the Instability of the Korean Political System*: 79.

> The Republic of Korea stands as a bulwark against the forces of aggression that threaten the peace of the Far East, and the security of Japan is vitally connected with the ability of the Korean people to maintain their independence and to develop a strong and prosperous economy. (In Japan) Normalization of relations between Korea and Japan would be an important contribution to the cause of peace in Asia. (In South Korea)

The normalization was also essential in struggling against the military threat of Communism in Asia.[69] Even though the two nations had provided military bases to the U.S. as important allies of the U.S., Korea and Japan had broken off diplomatic relations since World War II. Especially, the appearance of Communist China, armed with nuclear weapons, further reinforced the necessity of normalization. In 1964, President Park and Secretary of State Dean Rusk discussed the influence of China on the security of Pacific free nations and agreed that the normalization of diplomatic relations between South Korea and Japan would contribute to the interest of those nations in the region. Kim said, "The growth of Chinese power made it more urgent than ever before, … Normalization of relations between the two countries would be the first step toward closer future political and military cooperation among the ROK, the United States, and Japan."[70]

South Koreans could not easily forget their sufferings during the Japanese colonial period. President Rhee was not cooperative in the matter of normalization. However, it was indispensable to maintain a cooperative relationship with Japan, an ally of the U.S.[71] Park Chung Hee was well aware of this. First of all, he prioritized economic development over other national policies and needed Japan's financial support to achieve his goal of economic development. Warfare compensation might have been an important financial resource for economic development.[72] Despite the people's objections, Park normalized diplomatic relations with Japan in 1965 and received warfare compensation. This compensation was used as important funding for South Korea's economic

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69 Byung Chul Koh, *The Foreign Policy Systems of North and South Korea* (Berkeley: University of California Press, 1984): 15, 215.

70 Kim, *The Korea-Japan Treaty Crisis and the Instability of the Korean Political System*: 81.

71 Koh, *The Foreign Policy Systems of North and South Korea*: 214-215.

72 Ibid., 151.

development. Koh said, "Japan's agreement to provide South Korea with $300 million in grants, $200 million in government loans, and $300 million in private commercial credits over a ten-year (1966-1975) period… It paved the way for an influx of Japanese capital and technology, which played a key role in South Korea's economic modernization." [73]

Table 7. Japan's Economic Cooperation with South Korea, 1964-1975[74]

(Unit: $1000)

Year	Grants	Credits	Gov't Loans	Comm. Loans	Total (Loans and credits only)
1964	–	–	–	380	380
1965	–	–	–	67,777	67,777
1966	42,041	44,677	–	67,125	111,802
1967	32,539	28,911	–	36,249	65,160
1968	27,979	17,846	–	107,884	125,730
1969	24,058	11,073	–	70,489	81,562
1970	25,994	8,899	–	56,163	65,062
1971	29,204	8,000	123,718	78,793	210,511
1972	29,784	34,900	130,000	76,994	241,894
1973	29,338	5,029	55,023	60,748	120,800
1974	26,669	41,521	181,000	142,879	365,400
1975	32,394	–	40,000	18,400	58,400
Total	300,000	200,856	529,741	783,881	1,514,518

Japan also had various opinions concerning normalization but Japan was more cooperative in the matter of the normalization because of pressure from the United States and the burden of defending against emerging China. Asahi Shimbun described these necessities as follows:[75]

> To help the ROK will be to strengthen the bulwark of the anti-Communist forces against North Korea and Communist China. If the ROK is controlled by North Korea and if Pusan [the Korean port across from Japan] is covered by red flags, Japan will be flooded by mountainous waves of Communist forces.

[73] Koh, *The Foreign Policy Systems of North and South Korea*: 215.

[74] Koo and Han, *The Foreign Policy of the Republic of Korea*: 184.

[75] Kim, *The Korea-Japan Treaty Crisis and the Instability of the Korean Political System*: 82.

C. SOUTH KOREA'S PARTICIPATION IN THE VIETNAM WAR

The Untied States had experienced the risk of Communism spreading through the Korean War and was concerned about the possibility that it could experience the same thing in Vietnam.[76] President Lyndon Johnson hoped South Korea would contribute to prevent Communist expansion in Vietnam. In 1965, he sent his personal letter of "encouragement" to Korea and expressed his desire that Korea dispatch a combat division to Vietnam. Moreover, W. Averell Harriman, a special presidential envoy of President Johnson, visited Korea to discuss this matter. South Korea seriously considered whether to send troops to Vietnam and decided to dispatch some. In early January and late February 1966, Vice-President Hubert Humphrey came to Korea to discuss the additional dispatch of Korean troops.[77] And South Korea and the U.S. agreed with the Brown Memorandum: [78]

> On March 7, 1966, the U.S. Ambassador to Korea, Winthrop G. Brown, delivered to the South Korean government a 14-point memorandum [Brown Memorandum] in connection with the dispatch of the second Korean military division in Vietnam. … Main point in the Memorandum include: (1) modernization of Korean armed forces with new weapons over the next two years; (2) supply of new and special equipment to counter North Korean infiltration; (3) assumption of expenses by the U.S. relative to the dispatch of additional troops and their replacement in Korea; (4) prompt availability of the AID loan fund originally agreed upon at the May, 1965 meeting of President Johnson and Park; (5) increase of employment opportunity in Vietnam for Korean technicians. In subsequent action, the U.S. also agreed to grant additional monetary benefits for Korean troops in Vietnam.

The Untied States would gain the followings from South Korea's involvement in the Vietnam War:[79]

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76 Bruce W. Jentleson, *Perspectives on American Foreign Policy: Readings and Cases* (New York: W.W. Norton & Co., 2000): 145.

77 Wright and Cho, *Korean Politics in Transition*: 223.

78 Se Jin Kim, "South Korea's Involvement in Vietnam and its Economic and Political Impact," *Asian Survey* 10, no. 6 (Jun. 1970), 519-532: 529.

79 Koh, *The Foreign Policy Systems of North and South Korea*: 154.

> By agreeing to dispatch combat troops on a significant scale, South Korea helped to fulfill a number of functions for the United States: (1) it promoted the goal of bringing "more flags" to Vietnam, thereby further internationalizing the conflict; (2) it condsiderably lessened the U.S. military burden; (3) it helped to reduce the cost of the war to the United States; and (4) it contributed to the American military objectives in Vietnam.

Given the circumstance, where South Korea was confronted by North Korea, sending troops to Vietnam might have had a great influence on the security of South Korea. People opposed to Korea's dispatch of troops suggested that North Korea might take advantage of the weakening of South Korea's military security and might attempt to attack once again. People who agreed with sending troops said that dispatching troops to Vietnam would be one way to return the help the free world gave to South Korea during the Korea War as well as to prevent Communism from spreading.[80]

South Korea would seem to benefit mainly two things from its decision to dispatch troops to Vietnam. First, South Korea could strengthen the U.S and South Korea alliance.[81] Second, South Korea was able to gain a lot economically. First of all, Park Chung Hee could not ignore the economic effects on South Korea's economy of dispatching troops to Vietnam. South Korea had witnessed that Japan's economy recovered thanks to special demands during the Korea War. Even though the size of special demands was smaller than those Japan enjoyed during the Korea War, special demands during the Vietnam War were very helpful for the export-oriented economic development policy the Park Chung Hee administration was about to start in those days.[82] Koo summarized the factors leading South Korea to decide to dispatch troops to Vietnam as follows: [83]

> Although the reasons for Korea's dispatch of combat forces were not neatly crystallized in the Korean mind, three justifications for the sending of forces to Vietnam stand out: (1) Repayment of the debt for assistance

80 Wright and Cho, *Korean Politics in Transition*: 223-224.

81 Koh, *The Foreign Policy Systems of North and South Korea*: 154.

82 Ibid.

83 Wright and Cho, *Korean Politics in Transition*: 224.

> rendered during the Korean conflict by the United States and other nations; (2) The collapse of the Republic of Vietnam might endanger the security of many Asian nations including Korea; (3) Enhancement of Korea's national prestige, as well as economic and other benefits.

D. THE IMPACT OF THE VIETNAM WAR ON SOUTH KOREA'S ECONOMY

Before sending troops to Vietnam, Korea was seriously lacked dollars. The aid from the U.S. had rapidly decreased to $131.4 million in 1965 from $382.9 million in 1957. [84] The trade balance was always in deficit even though exports increased, since the more was exported, the more raw materials and machinery had to be imported. Therefore, Korea's foreign-exchange reserves were decreasing. In this situation, the Vietnam War greatly contributed to improving Korea's economic situation. As Japan achieved economic growth thanks to the Korean War in the early 1950s, the economic growth of Korea largely depended on the special demands of the Vietnam War between the late 1960s and early 1970s. Kim explained:[85]

> In summary, both in terms of immediate and long-term effects on the nation's economy, the Vietnam War represents the watershed of the economic growth just as the Korean War helped Japan leap into the expansion stage from its recovery period. It may be noted that the $380 million income ($580 million estimated by the end of 1969), so far from Vietnam, is relatively greater than the $800 million which that per capita income in Japan in 1951 was $136, only two dollars more than that of South Korea in 1967.

1. Inflow of Foreign Capital

As mentioned in the Brown Memorandum, the U.S. committed more economic aid to Korea as the price for its participation in the Vietnam War. This financial aid from the U.S. was absolutely necessary for the export-oriented economic growth of Park's regime. Yi explained: [86]

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[84] R. R. Krishnan, "South Korean Export Oriented Regime: Context and Characteristics," Social Scientist 13, no. 7/8 (Jul. - Aug. 1985), 90-111: 96.

[85] Kim, *South Korea's Involvement in Vietnam and its Economic and Political Impact, 519-532*: 522.

[86] Lloyd C. Gardner and Ted Gittinger, *International Perspectives on Vietnam* (College Station: Texas A&M University Press, 1999): 166.

> In 1966 when South Korea increased its forces in South Vietnam to 50,000, Washington provided Seoul with $10 million in program loans and $70 million in project loans. For fiscal year 1967, Korea received $15 million in program and $57 in project loans. The United States also indirectly funneled its capital to South Korea via the Asian Development Bank (ADB) to which the Johnson administration contributed $200 million at its founding in December 1965, as a regional cooperative financial institution designed to foster economic growth in Asia. … South Korea became one of the largest recipients of ADB loans with $111 million borrowed in total by the end of the 1960s.

The U.S. also increased military aid in addition to economic aid to Korea. Before 1965, the U.S. actually had decreased military aid to Korea, but the amount increased greatly with Korea's participation in the Vietnam War. Thanks to the military aid from the U.S., Park's administration could lessen the speed of spending for military expenses despite North Korea's threat such as attacking the Blue House and the USS Pueblo abduction in 1968. The spared expenses were invested in economic growth.

Table 8. Summary of Economic and Military Assistance to South Korea from the United States[87]

($ Million for U.S. Fiscal Year)

	1945-52	1953-61	1962-69	1970-76	Total
Economic Aid	666.8	2,579.2	1,658.2	963.6	5,745.4
Military Aid	12.3	1,560.7	2,501.3	2,797.4	6.847.3
Total	679.1	4,139.9	4,159.5	3,761.0	12,592.1

Korea not only sent soldiers but also workers in many areas. Dollars they earned greatly contributed to increasing Korea's foreign exchange reserves. Exporting to Vietnam and the revenues earned by workers in Vietnam accounted for 45.7 percent of Korea's foreign exchange reserves in 1968. Kim said, "The 1968 earnings of $180 million represented 16 percent of the total receipts of foreign funds and 2.8 percent of South Korea's GNP." [88]

[87] Krishnan, *South Korean Export Oriented Regime: Context and Characteristics, 90-111*: 97.

[88] Kim, *South Korea's Involvement in Vietnam and its Economic and Political Impact, 519-532*: 519.

Table 9. South Korea's Earnings from South Vietnam, 1965-68[89]

	1965	1966	1967	1968
U.S. Forces in Vietnam	184,000	385,000	485,000	536,000
Korean Forces in Vietnam	20,000	46,000	48,000	50,000
Korean Civilian Workers in Vietnam	100	10,200	16,000	20,000
Korean Exports to Vietnam	$18.4	$23.9	$22.0	$37.9
Goods and Services Sold to U.S. Military		$8.3	$35.5	$46.1
Construction		$4.5	$8.7	$10.7
Remittance from Korean Laborers Hired by U.S. Companies in Vietnam		$9.7	$39.3	$42.3
Total Civilian Earnings	$18.4	$46.4	$105.5	$137
Remittance by Korean Soldiers		$15.2	$37.8	$41.9
Korea's Total Vietnam Earnings	$18.4	$61.6	$143.3	$178.9
Korea's Gold and Foreign Exchange Reserve	$146	$245	$356	$391
Total Earnings from Vietnam in Relation to its Gold and Foreign Exchange Reserve	12.6%	25.1%	40.2%	45.7%

Note: All monetary figures are in millions.

89 Gardner and Gittinger, *International Perspectives on Vietnam*: 165.

Table 10. Korean Civilian Laborers in South Vietnam (as of May, 1968)[90]

Type of Work	Number of Workers
Machinist	2,775
Electrician	1,461
Heavy Machinery Operator	1,423
Driver	1,344
Common Laborer	1,217
Communication	914
Carpentry	899
Office Work (white collar)	688
Security Guard	349
Architect	335
Cook and Domestic Service	309
Other Services	1,101

Korea's foreign exchange reserves consistently increased after the Vietnam War, and reached to $386 million in October 1968. Reserves greatly increased from $138 million in 1965 when Korea began participation in the Vietnam War.[91] The improvement of foreign exchange reserves helped the inflow of foreign capital. Kim said, "In 1968, the import of capital goods from foreign funds jumped to $350 million, as compared with $240 million in 1967, and a mere $48 million in 1965."[92] The inflow of foreign capital played an important role for the export-oriented policy driven by the Park administration. Han explained:[93]

> Between 1965 and 1969 [South Korea's] total Vietnam earnings from such sources as military commodity procurement, war risk insurance premiums, contracts for services, construction contracts, remittances of military and civilian personnel, and commercial exports, amounted to $546 million, some 16 percent of total foreign receipts or about 2 percent of GNP for the same period. Earnings for the entire period of Korean participation (1965-1973) are estimated to have been at least $1 billion, without counting the increase in direct U.S. economic and military aid to Korea. The "Vietnam earnings"

[90] Gardner and Gittinger, *International Perspectives on Vietnam*: 164.

[91] Kim, *South Korea's Involvement in Vietnam and its Economic and Political Impact, 519-532*: 520.

[92] Ibid., 521.

[93] Sungjoo Han, "South Korea's Participation in the Vietnam Conflict: An Analysis of the U.S.-Korean Alliance," *Orbis* 21, 4 (Winter 1978): 898.

> became available during a critical stage in Korea's economic development, when large amounts of international liquidity were needed for the rapid expansion of export industries.

2. Increased Exporting

As mentioned before, Park's Administration drove export-oriented policies. However, since Korea had no experience in pioneering overseas markets, securing markets was the most important matter for Korea. Under those circumstances, Vietnam provided an important market for Park's administration. Korea's exports increased suddenly due to the participation in the Vietnam War. In 1968, Korea's exports and imports increased by 100 percent and 300 percent respectively compared to 1965 when Korea first sent combat forces, and the rate of GNP growth was 12 percent annually.[94] Park explained: [95]

> South Korea's involvement in Vietnam provided a spur to light industry and exports. During the Vietnam War (1965-73), South Korea earned over $2 billion from a combination of military and civilian activities in Vietnam and increased its exports to Vietnam. Utilizing its links with the USA during the war, South Korea exported cement, fertilizers, petroleum products and consumer items such as textiles, shoes and plywood. The receipts from this represented approximately 19 per cent of South Korea's total foreign exchange earnings over the period.

Above all, Korea advanced into the huge U.S. market thanks to participation in the Vietnam War. The U.S. increased imports from Korea as part of the price of participation. The increase ratio of U.S. imports doubled after participation in the Vietnam War. In particular, imports from Korea amazingly increased by 47.5 percent on a yearly average between 1965 and 1972. Imports of 35.6 million dollars in 1964

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[94] Sungjoo Han, "South Korea's Participation in the Vietnam Conflict: An Analysis of the U.S.-Korean Alliance," *Orbis* 21, 4 (Winter 1978): 521.

[95] Richter, *The East Asian Development Model: Economic Growth, Institutional Failure, and the Aftermath of the Crisis*: 145.

increased to 760 million dollars in 1972 - a 21 times increase. [96] Jung argued, as below, about this rapid increase of exporting to the U.S. [97]

> U.S. market was not opened to all developing countries in 1960s. Late 1960s, U.S. requested military alliance countries to buy weapon from U.S. to refrain military expenses paid by U.S. dollars under the "Buy America" policy. … However, U.S. did not apply this "Buy American" policy to Korea after Korea had sent troops to Vietnam. U.S. promised to expand imports from Korea and military aid to Korea for the price of the decision to send troops at Park Chung-hee and Johnson Summit in May 1965. Therefore, Korea could advance into U.S. market more easily than other developing countries.

Table 11. Summary of Exports and Imports. 1960-69[98]

(In millions of U.S. dollars)

Year	Exports				Imports				Annual Growth of GNP (%)
	Total	Growth rate (%)	To the U.S.	% of Total	Total	Growth Rate (%)	From the U.S.	% of Total	
1960	32.8	65.7	3.6	11.0	343.5	13.1	133.7	38.9	1.1
1961	40.9	24.7	6.8	16.6	316.1	-8.0	143.4	45.4	5.6
1962	54.8	34.0	12.0	21.9	421.8	33.4	220.3	52.2	2.2
1963	86.8	58.4	24.3	28.0	560.3	32.8	284.1	50.7	9.1
1964	119.1	37.2	35.6	29.9	404.4	-27.8	202.1	50.0	9.6
1965	175.1	47.0	61.7	35.2	463.4	14.6	182.2	39.3	5.8
1966	250.3	42.9	95.8	38.3	716.4	54.6	253.7	35.4	12.7
1967	320.2	27.9	137.4	42.9	996.2	39.1	305.2	30.6	6.6
1968	455.4	42.2	237.0	52.0	1,462.9	46.8	449.0	30.7	11.3
1969	622.5	36.7	315.7	50.7	1,823.6	24.7	530.2	29.1	13.8

[96] Jung Sung-jin, "[Special: 6·25 War, the past and now] Korea's capitalism and permanent military expenses economy," *Current Opinion on Unification*, no. 7 (Jun. 2000), 83-97.

[97] Ibid.

[98] Krishnan, *South Korean Export Oriented Regime: Context and Characteristics, 90-111*: 102.

Another special favor from U.S. was made through contracts with Korean companies in service and construction areas. Construction companies concentrated mainly on building military bases, building for other military purposes, and bridge and civil engineering construction. The experience of construction and civil engineering accumulated in Vietnam later contributed to the acquisition of foreign currencies from overseas construction projects in the Middle East after mid the 1970s. If Koreans had not gained construction experience in Vietnam, construction exports to the Middle East might have been impossible.[99]

Table 12. Korean Construction Exports, 1965-78

(new contracts awarded, in millions of dollars)

Year	Middle East	Other areas	Total
1965	-	5.4	5.4
1966	-	5.6	5.6
1967	-	15.7	15.6
1968	-	20.6	20.6
1969	-	14.4	14.4
1970	-	48.0	48.0
1971	-	55.7	55.7
1972	-	83.2	83.2
1973	24.1	150.2	174.3
1974	88.8	171.8	260.6
1975	751.2	63.6	814.8
1976	2,429.1	72.6	2,501.7
1977	3,387.0	129.2	3,516.2
1978	7,982.4	162.6	8,145.0

E. CONCLUSION

The timing when the dispatch of troops issue was raised was during the period in which the Park Chung-hee's power and control was questioned internally and externally. When the legitimacy of the military government which had taken the power in the May 16 military coup was doubted, the Park administration decided to dispatch troops to Vietnam to improve the relationship with the U.S. and increase its approval rating with

[99] Sooyong Kim, "The Korean Construction Industry as an Exporter of Services," *The World Bank Economic Review* 2, no. 2 (May 1988), 225-238: 227.

economic growth. Koh explained, “Park’s 1965 decision to send ROK troops to Vietnam under U.S. prodding produced substantial payoffs and contributed appreciably to an improvement in Seoul-Washington relations.”[100]

South Korea was able to solve its chronic insufficient foreign exchange reserve due to increased exports and financial aid from U.S. for the price of participation in the Vietnam War. Moreover, Korea acquired public loans with favorable conditions with support from the U.S., and it was much easier to obtain commercial loans with the solid security commitment of the U.S. after sending troops to Vietnam. As these financial resources were invested in the economic development plan driven by the government, the government’s approval rating gradually increased, and the intention of Park’s administration to maintain stability and continuity of the regime based on economic performance was realized. The economic development was a solid solution to ensure national security in the situation of military confrontation against North Korea.[101]

[100] Koh, *The Foreign Policy Systems of North and South Korea*: 212.

[101] Ibid., 233.

IV. ECONOMIC DEVELOPMENT UNDER PRESIDENTS PARK AND PINOCHET

A. INTRODUCTION

East Asian countries have accomplished dramatic economic development through export-oriented growth policy since World War II. The East Asian model (EAM) concept emerged in the course of analyzing and organizing this "miracle-like" growth of East Asia. According to Koo, the development model of East Asia was established in four stages. First, formation of hard states with development-oriented leadership. Second, export-oriented industrialization through government's intervention. Third, democratization by the middle-class, built up by economic development. And, fourth, deregulation, market opening and inroads into overseas markets. Therefore, it can be said East Asian countries have gone through authoritarian power, economic growth, political development and globalization.[102]

Among these stages, the second one, export-oriented industrialization by intervention of government, is the representative feature of the "East Asian model." South Korea is a typical EAM country showing all of the above features. In particular, Park's administration contributed to formation of a hard state and export-oriented industrialization by the intervention of the government in the 1960s-1970s. South Korea's average GNP growth rate in the 1960s was 10 percent. It was the most amazing speed of all other HPAEs countries.[103]

It was impossible to foresee this type of growth rate in the 1950s when South Korea was one of the poorest countries in the world after liberation in 1945. After its independence, Korea was divided into North and South Korea and they have confronted each other since. Although South Korea held an election and elected Rhee Syng-man as the first President, social unrest continued and Communist guerrillas connected to North

[102]Koo, *Developmental Model of East-Asia and Korea, 209-224*: 5.

[103]Cumings, *The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences, 1-40*: 1.

Korea, frequently appeared in the country. Moreover, the Korean War in 1950 devastated the Korean peninsula. The Rhee administration, which had to depend on the aid of the U.S., implemented import-substituting development, but political stability was a more urgent matter than economic development for the newly independent nation.

In the contrast, Pinochet in Chile, who seized power by a coup in 1973 implemented a neo-liberal reform policy totally different from the Park administration's economic growth policy with intervention of the government. Neo-liberal reform is based on the economic theory of Friedman and Hayek. It prescribed monetarism as a macroeconomic policy to solve stagflation spread in advanced industrial countries and insisted on liberalism, deregulation and privatization policies to reduce intervention of the government.[104] The "Chicago Boys," who had learned neo-liberalism from Friedman, actively adapted it to the economic policies of Chile.

The concept of neo-liberalism is almost the same as the so-called Washington Consensus and orthodoxy since they are based on identical economic principles: 1) low inflation and fiscal deficit, 2) market opening through trading and capital liberalization, and 3) strengthening market mechanisms through deregulation and privatization.[105] Neo-liberalism was born to solve problems of Western European and advanced countries, and the Washington Consensus was a comprehensive economic policy presented for developing countries.[106]

Chile had implemented import substitution industrialization (ISI) through protectionism before Pinochet. However, Pinochet overturned this with his neo-liberalism and export-led growth policy. Pinochet's administration in 1970 was a pioneer of neo-liberalism believing the market is more effective than government. Neo-liberal reforms of

[104]Wang-hyee Lee, "Political Influence of Economic Belief: Structural Analysis on the Reason of East Asia's Financial Crisis" (Seoul, Korean & International Politics Society, Jun. 2006): 83-107.

[105] John L. Campbell and Ove K. Pedersen, *The Rise of Neoliberalism and Institutional Analysis* (Princeton, N.J.; Chichester: Princeton University Press, 2001).

[106] John Williamson, "From Reform Agenda to Damaged Brand Name A Short History of the Washington Consensus," *Finance and Development* 40 (2003), 10-13.

Chile spread to Latin America and other developing countries in the 1980s.[107] The neo-liberal reforms later became a basis of Western European countries' economic policies in the 1980s with support from President Reagan and Prime Minister Thatcher, of the UK. Chile's GDP grew more than 50 percent between 1975 and 1981 through neo-liberal reforms; inflation dropped, and resource industries (copper, fruit, fishing and forestry) were prosperous.[108] However, despite the economic growth, Chile suffered a debt crisis in 1980 and the radical market liberalization had to be revised. Consequently, Chile pursued pragmatic market liberalization with the intervention of the state.

While Park and Pinochet had common interests for the establishment of a powerful military regime through a coup, they followed significantly different economic growth strategies, an economic growth strategy with the intervention of the state and a market-oriented economic growth strategy. The thesis will now review the differences of both countries' economic growth policy.

B. DIFFERENCES BETWEEN PARK'S ECONOMIC DEVELOPMENT AND PINOCHET'S

Park's regime implemented an economic growth policy ten years earlier than Pinochet. Park Chung-hee had been the leader of South Korea for 18 years (1961-79), and Pinochet had been the leader of Chile for 17 years (1973-90). The military government of Park and Pinochet were models of economic growth for other developing countries. These models are called the "Dragon" or the "Tiger" due to their economic growth. The big difference between two models was the role of government. The government designed an economic development plan and adopted active state intervention policies in South Korea. However, Chile preferred the effectiveness of the market, and pursued a market-oriented policy which minimized intervention of the state.

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[107] Eduardo Silva, "Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973-88," *World Politics* 45, no. 4 (Jul. 1993), 526-559: 529.

[108] Roger Alex Clapp, "Creating Competitive Advantage: Forest Policy as Industrial Policy in Chile," *Economic Geography* 71, no. 3 (Jul. 1995), 273-296: 284.

Before Park and Pinochet, both South Korea and Chile had adopted protectionism and import-substitution industrialization (ISI). Park maintained protectionism and replaced ISI with EOI. The role of government was critical in the Park regime's EOI economic growth strategy. On the contrary, Pinochet implemented powerful neo-liberal restructuring policy excluding protectionism. Owing to this policy, the economy of Chile turned into "an open, free-market economy based on agro-extractive exports' from 'a highly protected industrializing economy."[109]

1. The Relationships Between the Bureaucrats and Capitalists

Park's military regime concentrated its power on the administration to prepare an organizational basis for economic growth. These organizations were blocked from political stakeholders, and implemented powerful economic growth policies. The power of Park's military government and political insulation were important factors to accomplish the market-conforming strategy. A small cadre of technocrats tried economic reform during Rhee's government. They failed since they were not Korea's main power. However, Park's government formed a powerful bureaucracy through restructuring. Also, various specialists were appointed to the government departments.

In Chile, however, capital groups deeply intervened in economic policy-making. The internationalist conglomerates which wanted radical liberal reforms in 1970s needed a powerful regime to implement those reforms. Pinochet also needed support from the internationalists for national stability after the coup. The internationalists influenced Pinochet's government to push their desired economic policies through this mutually collaborative relationship. Silva explains:[110]

> The internationalist conglomerates' first victory came in April 1975, with the appointment of Sergio de Castro to the Ministry of Economy, Pablo Baraona as president of the Central Bank, and Francisco Soza as vice president of CORFO. All had close business and/or personal ties to either

109 Silva, *Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973-88, 526-559.*

110 Ibid., 546.

> the Cruzat-Larrain or the BHC internationalist conglomerates. De Castro was an intimate friend of Manuel Cruzat, one of the two major figures of the Cruzat-Larrain economic group. By the same token, Soza and Baraona were also on the board of directors of prominent Cruzat-Larrain companies. Cauas, who continued as minister of finance and sponsored drastic deflation, became the president of leading Cruzat-Larrain-controlled financial institutions and served on the board of directors of many Cruzat-Larrain companies.

In the early 1980s, the radical economic reforms caused a debt crisis and collapse in Chile's economy. Many economists pointed to policies which could not control the financial system as a reason of the failure of Chile's economy, but Silva put more focus on the mutual relationship between policymakers and top capitalists.[111]

> The evidence suggests that damaging policies may result when a highly autonomous state overinsulates ideologically rigid technocrats with organic links to a narrow range of business interests operating outside the confines of business peak associations. These characteristics can lead to harmful policies, policies too skewed for healthy economic growth that, in Chile at least, ended in economic disaster. The contrast to investment and growth patterns in the following policy period, within the same military government but with a different system of collaboration between business and policymakers, is instructive: productive investment as a percentage of GDP increased steadily.

Internationalists who had significantly influenced radical neo-liberal reforms in the 1970s in Chile established a pragmatic neo-liberal coalition with domestic businessmen and landowners after the debt crisis.[112] Therefore, although interests of internationalists were still important, the domestic market's interests were considered a lot more than before. Pinochet appointed Escobar and Collados who represented the

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[111] Eduardo Silva, "From Dictatorship to Democracy: The Business-State Nexus in Chile's Economic Transformation, 1975-1994," Comparative Politics 28, no. 3 (Apr. 1996), 299-320: 305.

[112] *Silva, Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973-88, 526-559*: 550.

interests of a pragmatic coalition as Ministers of Finance and Economy. This meant the pragmatic coalition's network extended to the nation, and the capitalist group influenced the policy-making continuously.[113]

In the case of Park's regime, although capitalists played an important role in economic growth, they were less powerful than Chile's capitalists when making national economic policies since the major officials of Park's government were mostly former soldiers. The relationship between policymakers and capitalists is greatly related to whether government-led economic development policies or market-oriented policies are selected.

2. Economic Development Policy: State Intervention vs. Market-Oriented

When Korea was liberated from Japan in 1945, the South Korean economy was a strictly controlled economy as a result of economic policies Japan had implemented in wartime. In these circumstances, the U.S. military administration tried to apply a liberal economic system as in the U.S. to South Korea, but this caused controversial arguments about which economic system was suitable for Korea. The result of the argument was reached by political consideration rather than theoretical comparison. The U.S. government, which contributed more than 50 percent of Korean government's budget, wanted to implant U.S.-type economic policies into South Korea, and the Rhee government, which could not survive without support from the U.S. government, had to comply.[114]

However, Park's government emphasized the role of government in economic development compared to previous governments.[115] They established a five-year

[113] *Silva, Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973-88, 526-559*: 552-553.

[114] Chung-Kil Chung, "The Ideology of Economic Development and its Impact on Policy Process," *Korean Journal of Policy Studies* 1 (Jul. 1986).; Tae-Gyun Park, "Different Roads, Common Destination: Economic Discourses in South Korea during the 1950s," *Modern Asian Studies* 39, no. 3 (Jul. 2005).

[115] Heung-ki Kim, ed., *Secret History; Honor and Disgrace of Korean Economy – 33 Years in Economic Planning Board* (Seoul: Maeil Economic Daily, 1999): 66-67.

economic development plan to drive economic growth. This plan was similar to Japan's economic development strategies which emphasized the government's control rather than autonomous regulations of the market.[116]

The five-year economic development plan began in 1962 and was a master plan to set up the direction of national economic growth and concentrate all the capabilities of the country. The state instructed and encouraged companies and all citizens, as well as the government, to accomplish the plan. In terms of macro-economies, the state instructed companies through its powerful bureaucracy, and companies strived to accomplish the goals in terms of micro-economies.

While the first and second economic development plan (1962-1966, 1967-1971) were mainly to promote light industries and build a basis for other industries, the third and fourth economic development plans (1972-76, 1977-81) focused on cultivating heavy and chemical industries. The fostering of heavy and chemical industries, which inevitably needed economies of scale in 1970, was an opportunity to grow conglomerates. Thanks to the full-fledged support from government, the conglomerates made inroads into petrochemical, steel, cement, shipbuilding and machinery industries. Global companies like Samsung Electronics, POSCO, Daewoo Shipbuilding and Hyundai Heavy Industries were born in this period.[117]

Although Park Chung-hee pursued capitalism, he did not select original free market policies. He concentrated economic power in the Ministry of Economic Planning Board after grasping political power, and nationalized domestic banks to obtain strict control of economic policy-making, fiscal budgets and companies.[118] The government decided the goal of the economic policy and the economic plan, the priority of capital distribution, rules of competition, and import-export policies, and supervised participating private companies. In other words, the government implemented control or

116 Bai Gao, *Economic Ideology and Japanese Industrial Policy: Developmentalism from 1931 to 1965* (Cambridge; New York: Cambridge University Press, 1997).

117 Chun, *60 Years of South Korea Economy*.

118 Karl J. Fields, *Enterprise and the State in Korea and Taiwan* (Ithaca: Cornell University Press, 1995), 269: 47-8.

management policies based on adopted revised capitalism by actively intervening in the macroeconomic area. The instances of intervention policies were subsidies in the types of financing and financing at low interest, tax benefits for industries selected as strategic industries, promoting export by financing, foreign exchange, investment permission, protecting domestic industries with subsidies, tariff walls, loan denominated foreign currency and capping the interest rate, and strict and thorough supervision by the government. Until the early 1980's, most Korean industries were protected by a non-tariff wall.[119]

Pinochet implemented a neoliberal economic restructuring program in 1973.[120] While Korea emphasized the role of the state in economic growth, Chile believed a liberal market was more effective than intervention by the state. The neo-liberal policies of Pinochet can be divided into three periods. The first was from 1973-75 when the previous import substitution policy was gradually revised, and the second period was from 1975-82 when radical neoliberal policies were implemented. The third period was 1983-88 when pragmatic neoliberal policies were conducted.[121] The second period, when radical neoliberal reforms were implemented, was the most distinct economic policy period for Pinochet's regime. The "Chicago Boys," [122] those who had been educated in the U.S., carried out strong neoliberal reforms with support from Pinochet to establish market rule. Clapp said:[123]

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[119]Koo, *Developmental Model of East-Asia and Korea, 209-224*: 13.

[120]Silva, *From Dictatorship to Democracy: The Business-State Nexus in Chile's Economic Transformation, 1975-1994, 299-320*: 304.

[121]Silva, *Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973-88, 526-559*: 526-559.

[122]Juan Gabriel Valdes, *Pinochet's Economists: The Chicago School in Chile* (Cambridge, England; New York, NY, USA: Cambridge University Press, 1995). After general Pinochet succeeded in coup in 1973, Chicago Boys formed a mainstream of economic bureaucrats and adopted neoliberal policies into Chile. As a part of aid program from U.S., economic professors of Chicago University contacted Chilean National University to teach Chilean students, but the Chilean National University, which had many followers for Prebisch's the theory of dependence, declined the proposal. Instead, Chilean Catholic University became a beneficiary of the program. Chicago Boys, disciples of Friedrich Hayek and Milton Friedman in Chicago University, were actually beneficiaries of the program.

[123]Clapp, *Creating Competitive Advantage: Forest Policy as Industrial Policy in Chile, 273-296*: 282.

> The first step in establishing market rule was to eliminate the accretion of barriers to trade established during the previous 40 years, and the new team opted for shock measures rather than gradualism. The government abolished protective tariffs outright, replacing them with a uniform import tax of 10 percent. … The critical element of the new economic policy, however, was the privatization of 437 of 507 state enterprises, intended to generate an irreversible structural change in the Chilean economy.

Reid stated that the Chicago Boys lowered protective tariffs to 10 percent, which had risen up to 750 percent, and privatized state-run companies.[124] Silva continued to explain the Pinochet's economic restructuring program as follows.[125]

> Between 1975 and 1982 Chile experimented with radical neoliberal policies in the construction of a liberal economy and society. These policies included draconian economic stabilization programs (shock therapy) and the rapid, thorough liberalization of capital markets, prices, and trade with little regard for their effects on industrial and agricultural sectors that had difficulty adjusting. The introduction of a fixed exchange rate in 1979 became the centerpiece of a system of automatic economic adjustment, after which the top policymakers believed that their main role would be to act as gatekeepers against interest groups that wanted to change the rules of the game.

Chile's neo-liberal reforms, driven by the Chicago Boys, was at stake due to a debt crisis in the early 1980s. The GDP dropped by 14.5 percent between 1982 and 1983 and income per capita fell by more than 19 percent, while the unemployment ratio increased by almost 30 percent.[126] When the free market economy collapsed, Chile tried to find a more pragmatic economic growth policy. The new economic team of Pinochet's government strove to correct the failures of the Chicago Boys, but they also did not change the existing neo-liberal approach.[127] Silva explained:[128]

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[124] Michael Reid, *Forgotten Continent: The Battle for Latin America's Soul* (New Haven [Conn.]; London: Yale University Press, 2007): 123.

[125] Silva, *From Dictatorship to Democracy: The Business-State Nexus in Chile's Economic Transformation, 1975-1994, 299-320*: 304.

[126] Reid, *Forgotten Continent: The Battle for Latin America's Soul*: 123.

[127] Silva, *From Dictatorship to Democracy: The Business-State Nexus in Chile's Economic Transformation, 1975-1994, 299-320*: 310.

[128] Silva, *From Dictatorship to Democracy: The Business-State Nexus in Chile's Economic Transformation, 1975-1994, 299-320*: 308.

> In 1984 Chile's economy began to recover under a much more flexible approach to the construction of a liberal economy, dubbed "pragmatic neoliberalism" by Chileans. Policymakers in the financial institutions still preferred neutral policy instruments. But they acknowledged that the state also had a duty to intervene in markets, particularly to stabilize prices and boost domestic production, albeit with the most market-friendly instruments available. Thus, the government controlled financial markets more and insured that real exchange rates remained high, interest rates were reasonable, agricultural and mining activities were protected by price floors, and manufactures received protection from unfair external competition as well as incentives to export.

3. Export-oriented Policy: Manufacturing Industry vs. Extractive Industry

The export-oriented industrialization policy, a core factor of successful economic growth in South Korea, was adopted in the situation because the private sector was still immature. Capital, technology and management abilities were all insufficient in South Korea. Therefore, the state took a step forward to protect and instruct industries, and encouraged private companies to participate in the program to use the advantages of the capitalistic market system. Krueger, former First Deputy Managing Director of IMF, appraised that Korea was successful because it pursued an export-driven system based on market incentives despite the state's intervention.[129]

Unlike South Korea, where natural resources are in short supply, the agricultural and resource sectors were a main part of economic growth of Chile. Before Pinochet, Chile was successful in the late 1960s as it conducted protective policies like other South American countries.[130] However, excessive protectionism was ineffective for many industrial firms, and they neglected to export unlike East Asian models.[131] In this state, Pinochet drove export-oriented economic growth policies while hoping commodity exports would play a great role in economic growth. He believed the market would do

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[129] Anne O. Krueger, "Chapter 40 Policy Lessons from Development Experience since the Second World War" In Handbook of Development Economics, ed. Jere Behrman and T.N. Srinivasan, Vol. Volume 3, Part 2Elsevier, 1995), 2497-2550.

[130] Jorge Nef, "The Chilean Model: Fact and Fiction," Latin American Perspectives 30, no. 5, Chile since 1990: The Contradictions of Neoliberal Democratization, Part 1 (Sep. 2003), 16-40: 18.

[131] Reid, *Forgotten Continent: The Battle for Latin America's Soul*: 118.

rather than the state.[132] Kurt Weyland said, “The market reforms imposed by the Pinochet regime made exports the engine of Chile’s economic development. Throughout the late 1980s, most exports were primary commodities.” [133] Clapp argued that[134]

> Chilean economic policy under military rule is represented as a complete break with the development model of the previous 40 years, dispensing with sectoral economic policies and accepting the judgment of the market in determining the winners according to the laws of comparative advantage (Villarreal 1990; Gallagher 1992). In the process, the country has exchanged a broad program of import substitution industrialization for specialization in a narrow range of export-oriented resource industries.

[132] Clapp, *Creating Competitive Advantage: Forest Policy as Industrial Policy in Chile, 273-296*: 282.

[133] Kurt Weyland, "Economic Policy in Chile's New Democracy," *Journal of Interamerican Studies and World Affairs* 41, no. 3 (Autumn 1999), v-96: 75.

[134] Clapp, *Creating Competitive Advantage: Forest Policy as Industrial Policy in Chile, 273-296*: 274.

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V. CONCLUSION

This thesis identified two factors in regards to why Park's government could accomplish such high-speed economic growth compared to Rhee's government. Park's military government provided powerful impetus and organization due to characteristics of military culture, and the export-oriented policy allowed an economy of scale by overcoming an insufficiency of natural resources and a narrow domestic market. The military regime provided political concentration to South Korea, a country that lacked experience in democracy. Leaders of the military regime, including Park, were elites who had studied in Manchuria and Japan, and they employed technocrats who could provide professional knowledge. The export-oriented industrialization policy was a successful policy approach for South Korea to develop its economy. South Korea had almost no natural resources, except for human resources. Capital was the most essential factor for the industrialization of Korea, but South Korea was one of poorest countries in the world. Therefore, foreign investment was definitely needed. The government guaranteed companies that borrowed foreign capital, and borrowed foreign funds by using the revenue earned by mine workers and nurses who went to Germany to earn money as collateral.

What if Rhee's government had implemented an export-oriented economic policy? Would it have been possible to realize high-speed economic development a Park's government did? The answer is negative. The powerful drive of Park was possible due to Park and his many followers in the military. High positions in the administration and Assembly were filled by former military officers who had served with Park, and they successfully assisted with his economic policies. Although Rhee's regime was also an authoritarian regime, it did not have the political stability and powerful policy drive since it did not have support from the powerful military.

State intervention was successful in South Korea, but all developing countries are not successful with intervention by the state. Chalmers Johnson asserts that since Korea had insufficient natural resources, industrialization was the only option to develop its

economy. Moreover, he said Park Chung-hee was able to learn from the former president's mistakes and Japan's economic model.[135] Chun argued that a "state of siege" caused by North Korea continuously reminded people of a sense of crisis, and they accomplished economic growth to survive. He instanced Israel, Taiwan and Singapore as similar examples.[136] Si-yoon Kim argues that circumstances within or without of a specific country are not directly related to its economic results, and he believes the ability of the political leader is the most important factor.[137]

Natural resources played an important part in the economic growth of Chile. South Korea was at the forefront in the Cold War and the national economy was greatly dependent on aid from the U.S. while internationalists significantly influenced Chile's economic policy. Korea watched and learned from the economic growth model of Japan; Chile, however, was greatly influenced by the Chicago school in the U.S. These different circumstances caused Chile to select a market-oriented economic development policy and Korea to select a state-intervention economic development policy.

The relationship between the state and private companies also significantly influenced economic growth policies. Since major high officials in South Korea were mostly former soldiers, the influence of private companies in South Korea was relatively small. In the case of Chile, major government officials were directly and indirectly related to companies, and in which they had interests their economic policies for the government were connected with interests of the companies related to them. The two different relationships between bureaucrats and capitalists were also derived from the differences between a state-led economic development policy and a market-oriented policy.

At least one thing is common between South Korea and Chile. The individual capability of Park and Pinochet played a significant role. Both men brought a military

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135 Chalmers A. Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, Calif: Stanford University Press, 1982), 393: 307.

136 Chun, *60 Years of South Korea Economy*: 6.

137 Si-yoon Kim, "State and Economic Development: A Critical Essay on the Predatory States," *Korea Administration Bulletin* 38, no. 2 (Apr. 2004): 203-23.

regime to strongly push economic growth strategy ahead. Like the export-oriented policy of Park, Pinochet's neo-liberal reforms would not have been possible without strong support from the military regime.[138] The economic growth strategy of the two countries were opposite in the early period. However, South Korea has pursued liberalism since 1980s, and Chile has implemented pragmatic liberalism since its debt crisis. A state intervention policy and a liberalism policy, in the early economic growth policies of both countries, were appropriate. It appears that the gap between the two countries' policies has narrowed as time has passed.

[138]Nef, *The Chilean Model: Fact and Fiction, 16-40*: 18.

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